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NEWS CONFERENCE TRANSCRIPT
REGARDING PRESIDENT'S FY 06 BUDGET REQUEST
U.S. Senator Judd Gregg
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SPEAKER: U.S. SENATOR JUDD GREGG (R-NH)

GREGG: Hello everybody, how are you doing today?

You know, the president has been kind enough to send us his budget, which we very much appreciate, and it's a budget which, I think, takes an appropriate approach to how we manage our fiscal house here in Washington and for our nation.

It spends \$2.5 trillion, which is a lot of money. But it does it in a fiscally restrained way, in that it doesn't allow the government accounts to grow in an excessive manner, and in fact in many accounts, it is quite stringent.

We are obviously coming through a period where we've had to fight a war, take on terrorism, faced a recession. All these issues have had a huge impact on our fiscal health.

The recession clearly slowed our revenues for a couple of years, our revenue growth, but fortunately, the president, in a very foresighted move, asked us to cut taxes prior to the beginning of the recession. As a result, the recession was much shallower than it might have been, and much less severe.

And so we're starting to see our revenues come back. In fact, last year they grew by about 9.5 percent. This year it's projected they'll grow by over 6 percent, and 6 to 7 percent throughout the next few years -- which is a very positive sign, obviously.

We've had to fight the war on terrorism. It's been extremely expensive. I saw one estimate that said about 91 percent of the increases in discretionary spending over the last couple years have been terrorism-related activity that we've had to pursue, whether it's fighting a war in Iraq and Afghanistan or whether it's gearing up here at home with our homeland security initiatives.

So we have been under a lot of fiscal pressure. And as a result, our deficits have grown and we need to address that. We need to bring those deficits down.

We face some structural issues which, as a country, we need to acknowledge. And I congratulate, again, the president for being willing to step up on this.

And the biggest structural issue is that there are a lot of us in the baby-boom generation who are moving very quickly toward retirement. And the baby-boom generation will start to retire en masse beginning in 2008, and will peak in retirement and maintain a very high level of retirement about 2019 right out into about 2050.

The effects of that are that we are going to put huge stress on younger Americans, our children and our grandchildren, to support this massive retired population -- which is a demographic fact. It exists, it's going to occur, and it is an anomaly in our country's history.

In fact, many of our programs which are structured for the purposes of dealing with retirement and giving people who are retired a decent lifestyle -- both in the area of income and in the area of health care -- have been built on the concept that there would always be a pyramid, that there would always be many more people working, paying into these retirement programs, than there are people who are retired.

Back in 1950, for example, there were about 12 people working for every one person taking from Social Security. Today there are about 3 1/2 people working for every one person taking from Social Security. By the year 2018, there'll be two people working for every one person taking from Social Security.

So we go from a pyramid to rectangle. And this becomes a major public policy concern for us in managing the fiscal house of this country. Because it would be really unfair if my generation, the baby-boom generation, were to pass on our children and our children's children less of an opportunity to have a quality-of-lifestyle, because the cost of supporting us is so great that we have to dramatically raise the burden of their taxation.

And this is one of those issues like that oil-filter ad, where you can either pay me now or pay me later. I mean, the payment's going to come. And the sooner we step up to the plate as a government and start facing this issue, and therefore mitigate the impact to some degree, to the extent we can, the better off we'll be and the better stewards we'll be of our country, and we'll give our children a better opportunity for a quality lifestyle.

So we need to address the entitlement accounts. It's a long statement -- but we need to address the entitlement accounts. That's critical if we're going to be successful in disciplining the fiscal house of the federal government.

And the president has stepped forward on that issue.

He has obviously gone forward with a major proposal in the area of Social Security, which isn't really within the budget realm. As you know, the budget law does not allow the Budget committee to address Social Security; you can do it tangentially but not directly.

GREGG: But he's also put forward in his budget a number of initiatives in the area of entitlement reform, specifically in the area of Medicaid, which is a huge issue, agriculture and education.

So he has put forward a strong budget in that account also.

Obviously, this is a budget which is going to create some significant angst amongst my colleagues, to be kind, but the fact that everyone is probably going to be upset by it, because everybody's ox gets gored, including defense -- by the way, which the base on defense has been impacted here, reduced, the rate of growth of it -- probably means they've done a good job in the sense that they've put everything on the table and brought everybody into play and said, "We're all going to have to be in this boat together, and hopefully we're going to be rowing the same direction rather than in circles."

So I congratulate the administration for stepping forward. This is the initial act in the process.

It is my intention, hopefully, as Budget chairman, to work with my colleagues, both on our side of the aisle and across the aisle, to put in place essentially a budget which follows the concepts outlined in this, which is that we control the rate of growth of spending, especially in the discretionary accounts and in some entitlement accounts, and that we look for reform, and that we also put in place enforcement mechanisms which will allow members of Congress who wish to raise fiscal issues, give them some tools to do that.

So that's a quick summary of my views of this budget and where we stand.

We're going to be holding hearings for the rest of the month.

I certainly hope to mark up along the time frame which is set out by the Budget Act, which would be the beginning of March, and have it on the floor in March, which is the statutory time frame.

Anybody got any questions? No?

Thank you very much.

(LAUGHTER)

QUESTION: Questions on the deficit, you mentioned the importance of reining in the deficit, but the Bush administration says his budget actually halves the deficit in five years.

QUESTION: Do you think that's accurate?

I mean, this budget, as you say, doesn't include any of the Social Security reforms. It also doesn't include the expenditures in Iraq and Afghanistan that we know are coming. It doesn't include making tax cuts permanent, AMT fixes. Things like that.

GREGG: Well, it does reduce the deficit in half over four years, depending on what number you choose to reduce from.

But there's a very significant reduction in the size of the deficit. And I think when you're looking at the deficit, you've got to score it in relationship to gross national product rather than in actual numbers.

It does also reduce it in actual numbers rather dramatically, but it's gross national product that you're looking at. And it takes it from about 4.5 percent of gross national product to under 2 percent of gross national product -- which is a fairly significant reduction.

Your second part of your question, which is, well but it doesn't include the supplementals for the war. I'm reasonably ambivalent on that issue, as a budget hawk, because we don't want those costs built into the base.

This war is going to be over, hopefully sooner rather than later. And when it's over I, quite honestly, don't want the Pentagon having its base increased by the cost of fighting this war. I would much prefer to have it outside the basic budget so that we see it, we know what it is, we know what that cost is.

But two or three years from now, that cost should be completely off the books. I don't want to, four or five years from now, find that I've still got that cost on the books, even though the war was over three, four years ago.

So I'm willing to take this approach. We are going to do something, I suspect, to make it very clear what the war costs within the budget. We're also going to make it very clear, we're going to have a very transparent budget on the issues of out-year costs.

Contingent liabilities of this government are huge, absolutely huge. We're going to have some testimony on Monday -- or tomorrow, sorry -- from the comptroller about this, and it's something that people need to know about.

We need to make it clear to people just how much we already have on the books in the way of spending.

QUESTION: Senator Gregg, in addition to being Budget chairman, you're also an appropriator. I believe that this budget, outside of defense and homeland security, either has increased or a net decrease in all the other programs. I'm not sure what the exact number is.

I don't know if during your tenure as an appropriator that's happened before. Do you think the Congress and specifically the Senate, can pass a budget that includes either a freeze or a net decrease in non-defense, non-security related spending or is that too tight, too unrealistic to get passed?

GREGG: No, I think we can do it. We came pretty close this year to doing that, in fact.

It is difficult, but it does mean you have to prioritize. And the administration's been willing to step up and say where they would prioritize. They've listed a whole series of programs they're willing to eliminate or reduce.

We don't have to follow those programs, but my job as Budget chairman, I believe, will be to get a top-line number, in this case it's 840. That's the number and then say to the Appropriations Committee, "Within that number you allocate. You make your decisions. You set your priorities as to where the money will be spent."

Looking at it just from the parochial nature of should I continue to be the chairman of CJS or just -- who knows? But if I am, I could make this budget under my committee, even though it does have some fairly significant cuts.

QUESTION: Just to follow up...

GREGG: It also has some money goes up for the State Department, actually. There are some money increases for the State Department.

QUESTION: Even though you're talking about a top-line number, that top-line number in the budget assumes reductions across the budget that get you there. Do you think that Congress can pass a budget with, if not cuts where the president says, cuts somewhere else that add up to the same amount of money?

GREGG: Yes, I do. And I intend to do that.

QUESTION: Senator, as we are sure you're aware, the budget is also a political documents, and I wonder if you could speak to whether or not you think that this is -- that the president's budget is a way for him to call on Republicans in Congress to adhere to the GOP philosophy of smaller government, of really putting their money where their mouth is, as it were?

GREGG: That's a good question, and I believe that we, as a party, have at our -- one of our main roots, fiscal responsibility and being the party that governs fiscally responsibly.

That's something that's always guided me. It's always been at the essence of what I think, why I think I'm a Republican as versus maybe in the other party.

And I do think the president, with this budget, is calling us back to our roots of being a fiscally responsible party on the issue of managing the deficit and of spending restraint.

We had a difficult time. The war came on us without anybody expecting it.

GREGG: The recession was significant.

We've been through that difficult time, and as a result, really, of the leadership of this administration, we are through it. We're moving on. And as we move forward, we need to put in place the fiscally responsible action, so that we don't pass on to the next generation unnecessary debt, and furthermore, we don't create structural problems for the next generation, so that they have programs that they have to support that they can't afford, and we know they can't afford, simply because it's politically advantageous to do that.

QUESTION: (OFF-MIKE) a little bit. I mean, this is actually a budget that's larger than it has been in the past. This is not a small dynamic budget. It's a big-budget government -- a big government budget. But it's a different kind of government. It's a lot more spending on national security, homeland security, and a lot less on social and economic supports.

If you could just talk to: Is that a kind of ideological shift that we are seeing? The government isn't really getting smaller, but certain parts of the government are.

GREGG: Well, regrettably, as Barbara Conable (ph), who, I think, was one of the great legislators I've ever had a chance to come across, has told me, "All government moves to the left." And it's just a question of how quickly it moves to the left. You can put a lot of engines on that train or a few engines.

This budget is a very restrained budget. This budget does not allow government to grow faster than the rate of growth of the economy or faster than the productivity rate of the economy.

And that's how you control government and make it responsible. You keep its rate of growth below the rate of growth of the economy and below the productivity of the economy.

Yes, there is a clear shift in this on priorities. But it was put upon us, as a nation. We are at war. When you are at war, you've got to make some difficult decisions.

The first decision you have to make, which isn't very difficult, is you support the people in the field, you make sure they have what they need, you make sure we have, as a nation, and we are doing what is necessary to protect ourselves.

It's going to cost a lot of money. And when you make that decision, that does reprioritize other spending.

This is not a time when we can have guns and butter in excess. We're going to have a fair amount of butter. But it's just not going to be at the level that it might have been in the past if we weren't at war.

QUESTION: People are talking a lot about entitlement programs -- if you had a chance to look at the president's request there, I'm wondering if you can talk about where you think your committee should be prepared, if anywhere, to go further than he is.

GREGG: Well, I would be prepared to go further, potentially.

But I think it would be foolish of me to start prejudging that situation where we're going to try to work as a team, until I've had a chance to sit down with my members and see what they want to do.

And obviously our first goal is to support the president's initiative, because his is fairly aggressive. And if we can get to where the president wants to go, we will have made great strides.

QUESTION: A follow-up on the point about the -- sort of the shift in government. Could you talk about -- we need to fund the cost of the war, and for the troops in the field, those costs aren't in the budget, right?

GREGG: Oh yes they are, the base is -- \$419 billion for the Defense Department, which is up from -- just in the last eight years, up from about \$294 billion, \$296 billion.

QUESTION: And that's where I'm headed is: The administration has chosen not to include outyear costs for discretionary programs, is what they say, in 2010 -- much (OFF-MIKE) perhaps they've chosen not to do that this year, so it's hard to tell where the money's going to go, or where it's likely to go. Prior, in last year's budget, the Defense Department, outside of Iraq and Afghanistan, it was set for a very substantial total, building upon (OFF-MIKE) greater than, possibly, in the height of the '80s build-up.

Is that your understanding? Is that still where the defense budget would be headed under this budget?

GREGG: No, it's not my understanding. And in fact I think what the president has done is scaled back the rate of growth of the defense base.

And you're already starting to hear some of the concerns about that that are being expressed by certain defense contractors. I've already seen a few ads in the local papers.

So I think it's clear that they are taking a hard look at the defense base, what type of programs they're going to have to cut back on.

So defense has not been left unscathed in this exercise.

QUESTION: Senator, you were talking about how fiscal conservatives miss the base of the party, but we have seen that the Republicans like to spend a lot of money, too, and I can think of some fiscal conservatives who are also great defenders of the farm subsidies.

QUESTION: So do you think that this is a kind of budget where the rhetoric is going to meet reality?

GREGG: Well, you know, farm subsidies -- you know, we have to eat. I guess that would be the argument.

But it would be nice if it was a more market-oriented system. And I think that's what the president's saying: "There's going to always be some subsidy in that system, but let's make it more market oriented."

So there are better ways to do these things.

This budget sets us on a path toward trying to get some discipline into the federal spending regime, especially on the discretionary non-defense side, and the discretionary defense side, and on many of the entitlements, with the exception -- Medicare's not in the package.

So you have to congratulate him for being willing to step up.

Now, my sense is that there's a real renewed interest -- at least on our side of the aisle, and I hear it from some of my colleagues across the aisle, too -- in getting a handle around this.

And why is that so important? It's not a theoretical debate here. There's two things that happen if we continue to run these deficits that are not good at their present levels.

One is we pass on to our children a lot of debt so that their ability to do things with their generation are going to be reduced, because they're going to have to pay for our generation's expenses.

And two is the international community's telling, us with a fair amount of intensity, that if we don't get our fiscal house in order and put in place the restraints necessary to manage our budget, they're going to continue to have resistance relative to using the dollar.

And that reduces the value of the dollar, and at some point, that becomes a real problem for us.

So I think we're getting messages that are fairly strong that we need to be responsible, and I believe most of my colleagues are very receptive to that -- very receptive to that -- at least that's my impression.

QUESTION: Senator, right after 9/11 the Senate worked very quickly on the 2002 ag bill. To what extent has the political climate here changed on the assumptions in that bill since then?

GREGG: I'm not an agriculture specialist.

The president sent up a proposal to do some things in the area of agriculture. I'm going to refer that to Saxby Chambliss and others who are the specialists.

Hopefully, we'll be able to send him a reconciliation instruction, if he needs it, that he's comfortable with and that they can work with.

QUESTION: Senator, could you talk about budgets for foreign assistance? I mean, you haven't talked it.

The president called it a very generous budget, but the critics, the NGOs, say they're afraid that the core traditional programs might be cut. What's your take on that?

GREGG: Well again, the Budget Committee works in big numbers. We don't work in specific programs.

Now, I do have some of those programs in my appropriating committee, and there's a significant commitment here especially, for example, peacekeeping and in the area of public diplomacy, and in the area of HIV-AIDS.

So the president has laid out some priorities. I presume there will have to be choices made that other -- some of this is a direct increase. The State Department does receive a fairly significant increase, the AID people do, within the State Department.

But there will also have to be some programmatic reductions in rate of growth. Some programs that aren't working so well should be looked at and eliminated, obviously, or at least reduced, if they're not doing the job.

QUESTION: The president proposed spending caps and this is a pretty secure provision -- I assume you won't know about it, if you do, I'll be pleasantly surprised, because I can't figure it out yet.

But there's a commissioner there on IRS. He's saying -- it looks like it set specific levels for IRS tax law enforcement. Is that something that you think is appropriate? Would you like to see it?

GREGG: Well, I may not fully understand it yet either.

But the way I understand it is, that that number -- the cap on IRS can go up if IRS can show that it's raising money to pay for the increase in the cap -- which is an interesting concept.

We do have -- and this is a big issue which really, Kent Conrad has spent a great deal of time highlighting, a large amount of taxes which are owed the federal government, which aren't being paid on an annual basis.

How we collect those is a big issue. And I think this is an effort to increase the efficiency of collections relative to people who aren't paying their fair share -- which is not a bad policy, in my opinion.

QUESTION: Excuse me, you said there was renewed interest in reducing the deficit.

QUESTION: What about the big chunk of the deficit that's actually due to the tax cuts?

GREGG: Well, that's good Harvard economics, but not the way I see it.

My view is that the tax cuts significantly reduced the recession, the depth of the recession. It created more economic activity, more capital formation, and as a result, have generated renewed revenues to the federal government, which probably wouldn't have been there, because we would have been into a much more severe recession.

Last year, revenues jumped 9.2 percent. That's a huge increase on revenues. This year, they are projected to jump another 6.5 percent, and next year, 7 percent.

We're looking at a very strong comeback in revenues. The revenue line's going up -- it will be up to what will be the historical average of about 17.5 percent of GDP being of revenues -- within the next two years. So I think we're moving the right way.

I happen to believe very strongly that you cannot fully control government on the spending side of the ledger; that the best way to control government is to reduce the amount of revenues coming in so that there has to be a reaction to that.

If you give it all of the revenues it needs, it's simply going to get spent. That's the way that it works. People always spend what they receive.

So I think having restrained revenues is a good idea to force economically fiscal activity that's restrained.

And more importantly, the real reason to have reduced revenues is it's people's money. You know, the government should let people keep as much of their money as we can, in order that people can put it to use more efficiently than the government. Because people can put it to use more efficiently than the government. Plus it's theirs to begin with. And you create much more capital formation, much more incentive for savings if you give them a lower tax rate.

We have been around this barn so many times, as a country, that I think we would have learned a lesson, that as you reduce the rate of taxation on people, you create much more productivity and much greater revenue growth for the government.

And all you need to do is look at the numbers -- and I wish we had the chart here -- that are coming in on capital gains receipts to see that fact. The capital gains receipts are spiking dramatically as a result of having cut the capital gains tax. That's because people are unlocking those gains, realizing those gains, paying the taxes on those gains, and then reinvesting in something that's much more productive, which creates more jobs and gives people more of an incentive to be productive.

GREGG: And that should be our goal.

QUESTION: (OFF-MIKE)

GREGG: I didn't say everybody. A large percentage. I'm sure there's somebody who didn't get it.

QUESTION: Is there a program that's actually of concern to you that you are worried about getting cuts in?

GREGG: I can name five or six, seven or eight, 20 or 30. But I'm not going to get into specifics because I don't think it would be appropriate. Basically, what I'm going to say as Budget chairman is we're going to hit a top line number and then we're going to refer that number out under our 302(b) allocation process, where we give allocations to everybody and let them make the decisions on prioritizing.

But sure, there are programs that I would maybe disagree with the administration's priorities.

QUESTION: Senator, why not just an across-the-board cut? That's an idea. That would be fair, wouldn't it? Or what is the fair way to do it, especially as far as mandatory?

GREGG: Well, across the board is a way to do things. And when you can't get it done by the way you should do it, which is to look at the program and see which ones are working best and make the decisions based on the programs, you can go back to an across-the-board cut. I never would rule that out.

But I think initially the administration's done the right thing. They've been willing to step forward and say, "Here are 150 programs that we should either reduce or eliminate." That's what governance is about. You shouldn't hide behind across-the-board cuts.

QUESTION: (OFF-MIKE) how do those numbers look the second five years in terms of revenue and percentage of GDP?

GREGG: They're up pretty high. They keep going -- they're estimated in this budget as going up about 6 to 7 percent -- I've got the number somewhere -- right through the period. Continuing to grow until they get to about I think it's 17.9 percent GDP.

QUESTION: (OFF-MIKE)

GREGG: They get to 17-plus percent within the next three, four years and then after that they hold at about 17.5, 17.9, somewhere in that range.

QUESTION: Throughout the period?

GREGG: Right. That's the estimate. Off the top of my head, that's what I recall.

QUESTION: How much of that roughly would be AMT, not fixing AMT and that...

GREGG: Well, none of these numbers assume AMT being fixed.

QUESTION: I know. That's what I'm asking. How much of that (OFF-MIKE) because the assumption around here is that AMT will be fixed?

GREGG: Don't know the answer to that question, but I think you've got to figure AMT's going to be fixed in the context of total tax reform.

QUESTION: Can you say for sure that you're going to mark up a five-year budget resolution since the president has also now proposed a five-year budget? Has that decision been made?

GREGG: Nothing is for sure around here, as you know. But as sure as I can be I surely can say that.

QUESTION: Is there any incentive at all to go toward a 10-year budget so that you could at least extend the tax cuts...

GREGG: No, 10-year budgets...

QUESTION: ... several years down the road from their current expiration?

GREGG: Not for me. I mean, I think these 10-year budgets are nice debate topics, but substantively we have trouble getting two years out correct.

GREGG: Ten years we have a lot of problems with.

QUESTION: Going back to the question about core plans that you would like to see saved, I mean (OFF-MIKE) is there something there that you know you're going to be hearing from voters about?

GREGG: I'm going to hear from my voters on a lot of issues on this and I'm going to tell them all the same thing.

We have an obligation as a government to manage our house as you manage your household, which is in a fiscally responsible way and we may have to make some decisions which you don't like because they're going to affect you.

But if we do it fairly, if we treat everybody fairly and honestly and openly, we will end up passing a budget which is responsible and giving our children a better chance at a good lifestyle because we won't be passing on to them so much debt.

Thank you very much.

END

